

Introduction to Microcredit

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The problem of Third-world poverty

More than one billion people in the world live on less than one dollar a day. Another 2.7 billion struggle to survive on less than two dollars per day. Poverty in the developing world, however, goes far beyond income poverty. It means having to walk more than one mile everyday simply to collect water and firewood; it means suffering diseases that were eradicated from rich countries decades ago. Every year eleven million children die-most under the age of five and more than six million from completely preventable causes like malaria, diarrhea and pneumonia.

In some deeply impoverished nations less than half of the children are in primary school and under 20 percent go to secondary school. Around the world, a total of 114 million children do not get even a basic education and 584 million women are illiterate.

UN Millenium Project website

The goal of the UN Millenium Project is to eradicate extreme poverty from the globe by 2015. Of course, the global poster child for chronic, grinding poverty is sub-Saharan Africa, which received special attention at the recent Group of 8 meeting in Gleneagles, Scotland. The series of Live8 concerts, seen by an estimated 200 million viewers globally, gave the meeting an unusually high profile in the popular media.

An outcome of the Gleneagles conference was a commitment by the G8 nations to increase annual aid from the current \$25 billion to \$50 billion by 2010. Specifically, most of the G8 leaders affirmed their countries' commitments to provide assistance equal to .7% of GDP annually by 2015, conditional on recipient countries getting their houses in order by improving transparency, fiscal responsibility, and accountability, with a special focus on reducing corruption. Those countries balking at more aggressive measures voiced concerns that greater assistance will likely serve to line the pockets of corrupt government officials and to support irresponsible regimes.

The goal of eliminating African poverty is nothing new. In fact, it is the failure of massive programs in the past at a cost of billions of dollars, that nurtures the skepticism about prospects for sweeping solutions. As in many African cities, it is impossible to walk the streets of Jinja, Uganda

without passing the office of this ministry or that mission, this development program or that project, all of which testify to the good intentions and generosity of Western donors, but also to the persistence of dire poverty in the face of those efforts. Any visitor to Africa is struck by the breadth and depth of poverty, manifested in the lack of opportunities in healthcare, education, food, clothing, housing, basic sanitation—in other words, in a lack of much of what we in the developed world consider basic necessities to live with security, dignity, and hope.

Once you have visited sub-Saharan Africa, "the poor" can never be just a concept or a monolithic entity. Once there, they have faces and names and specific needs and pains. Names like Robert, whose son James was not feeling well the day we visited in July, 2003. James died three weeks later of malaria-related causes. Names like James Ukumu, whose family size has swelled to thirteen because he has taken in nephews and nieces whose parents died of AIDS. Names like Moses Kirya, who is a faithful preacher who has devoted a plot of land on his property to build a meeting place for the local church, and whose family has taken in two AIDS orphans. Moses is typical for an industrious young Christian man with a family. He provides much of his family's food needs from farming his own land and has a small brick-making business besides; also, his wife makes baskets for extra income. But like many in sub-Saharan Africa, his family is just one injury, illness or accident away from hunger or inability to pay school fees or medical bills, or buy clothes or other necessities. His sense of calm and his generous spirit are tested daily by the knowledge that he is just able to provide for his family as long as things go well.

Many missionaries are unprepared to deal with the countless needs they observe and the daily requests they receive for assistance with funeral expenses, medical bills, school fees and so many more. When a mission team moved to Mbarara, Uganda in 1997, they had intended to evangelize, plant churches, and to nurture those churches to maturity. They had no specific intentions of engaging in economic development projects, nor had they any training in doing so. But faced with the countless needs they witnessed and out of a passion to serve their brothers and sisters, they realized that, as team member Jay Baker expressed it, "We just had to do something." Their efforts were varied, as were the results. Their development projects

included an internet café, a milk goat-breeding project, and more recently a micro-loan project.

All the projects had something in common. Motivated by the love of God, the missionaries expressed that love by seeking to understand and to meet the needs of their community, and also to provide a connection of loving service between the missionary families and their community. By meeting these "felt" needs, they hoped to enhance their opportunities to meet the spiritual needs of the people.

An interest in cultivating relationships that result in evangelistic opportunities is the aim of many mission-based economic development projects. In some cases, as in Uganda, the local government requires that foreign mission efforts provide service to the community beyond evangelize, as if to say, "You can spread your message and conduct your ministry, but you also must provide services that *WE* consider useful and valuable as well." The essence of holistic ministry is that all service done in God's name is an expression of worship (in the same sense that "true worship" is meeting the needs of orphans and widows), and that God's will is accomplished, not just supplemented, through feeding the hungry, clothing the naked, and visiting the lonely. Just because many groups provide food and water while ignoring spiritual needs is no excuse for God's people to model a partial gospel by neglecting physical needs.

The spiritual versus physical needs issue is not an easy one to resolve. Faced with limited resources, missions committees and missionary teams must make tough decisions about which programs merit their attention, based on what they perceive the greatest needs to be. Traditionally, most Christian missions have focused on evangelistic outreach, consistent with Jesus' summation of his mission in Luke 19:10: "The Son of Man has come to seek and to save the lost." This statement has led some mission committees and ministries to reject any programs that don't provide a direct link to evangelism, as if a project's merit should be based on its potential to produce converts. A holistic ministry approach will seek to address all aspects of human need, realizing that most problems humans face, whether physical, emotional, or social, often have a spiritual dimension as well. Spiritual poverty is real and must be a prime focus of any Christian ministry.

But Jesus' followers must also show concern for the physical needs of the poor, regardless of the evangelistic opportunities. In I John 3:17, John wrote plainly that one's love for God is reflected in one's behavior toward the poor as demonstrated in generosity towards them: "If anyone has material possessions and sees his brother in need but has no pity on him, how can the love of God be in him?" Jesus himself implies that eternal judgment hinges on how we behave toward those who exist at the margins of society, those generally described as "the poor." Of the very few references in Jesus' teachings to a Day of Judgment, surely the most memorable is described in Matthew 25: 31ff. In that scene, the righteous are separated from the sinful and God explains his judgment with the well-known commendation of the righteous: "For I was hungry, and you gave me something to eat . . . thirsty and you gave me something to drink . . . a stranger and you welcomed me . . . naked and you clothed me . . . sick and you cared for me . . . in prison and you visited me." The sinful were condemned for neglecting these acts. There are many more references in scripture as to our obligation to the poor, but these should be enough to make the point.

Relief or Development?

Imagine you are watching *Headline News*, which is describing the distribution of food and clothing to victims of a hurricane on the Gulf Coast. A few minutes later, another story notes a program directed at homeless people in a major U.S. city. While the people on which attention is focused in these two stories have similar needs—for food, clothing, shelter, and healthcare—there are some critical differences. In the first case, the needs are the result of a catastrophic and unforeseen event, which no reasonable amount of planning could have prevented. In the second case, the recipients' needs are part of a continuing pattern, reflecting a lifestyle which in some cases is related to personal choices and behaviors for which the individual is responsible. If the same remedy is applied to these problems, it is very likely more harm than good will be done. While both relief and development measures are motivated by *agape* love, they will not result in the same remedies, even when the symptoms appear similar.

In working with the poor, it is critical to distinguish between *relief* and *development*. Corbett and Fikkert¹ define *relief* as "the urgent and

¹ Steve Corbett and Brian Fikkert, *Relief and Development: Ideas and Issues to Consider, Mandate*, The Chalmers Center for Economic Development, Winter 2005.

temporary provision of resources to reduce immediate suffering from natural or man-made disasters." They define *development* as "a process of ongoing change in which people are moved closer towards being in a right relationship with God, with themselves, with others, and with nature." Determining which is most appropriate in a given circumstance, relief or development, is a matter for serious study and prayerful consideration.

In the case of hurricane victims, relief is needed immediately and development assistance will likely be appropriate in the future. In the case of homelessness, providing relief in the form of food, clothing, and shelter, without concerns about development will likely lead to continued dependency, enabling recipients of assistance to live irresponsibly and hindering their development as human beings created in God's image.

Many are probably familiar with the story of an exchange between Mother Theresa and the businessman. As the story goes, Mother Theresa's open-handed benevolence program was challenged by the businessman, who asked: "Sister, don't you know the proverb: 'Give a man a fish, and you feed him for a day; teach a man to fish and you feed him for a lifetime?'" As always very direct, she responded, "Yes. So I will give him a fish while you teach him to fish." Many businesspeople recognize that relief efforts will never be sufficient to extract people from the cycle of grinding poverty that typifies the lives of many of the Two-third's World's inhabitants. Development is needed, and Mother Theresa's challenge to the businessman is in fact a challenge to all Christian businesspeople to put our knowledge, experience, and beliefs into action on behalf of the poor.

Historically, Christian mission efforts in less-developed countries, particularly among the churches of Christ, have focused on the works of evangelism, religious education, and medical care. In recent years, however, various programs have been undertaken in both domestic and foreign Christian missions to consciously promote economic development as well as to meet more urgent physical and spiritual needs.

Emergency relief may demand open-handed generosity in the form of outright gifts or grants. On the other hand, non-emergency development assistance should encourage self-sufficiency in recognition of real spiritual needs such as the need to provide for oneself and one's family and the need

to work, thereby to participate with God in caring for His Creation. When the initial reaction to need is to give without considering the situation, the result may be to enable or encourage behavior that perpetuates economic dependency. It may also be poor stewardship.

It has been said that the Jewish community observes a four-step approach to economic assistance. If a member of the community is in need, the first-choice response is to provide that person with meaningful work. If such work cannot be found, then the person is to be given any work. If that is not possible, then a loan is made available. If the person has little prospect of repaying the loan, then an outright gift is made. This progression reflects some interesting insights into the complexity of human needs. It seeks to preserve the individual's pride and sense of usefulness by viewing work as inherently valuable, even if the work itself is not so rewarding. The provision of a loan before a gift helps preserve the individual's dignity while maintaining the lender's resources (in this case, the resources of the community) for the future. The last resort is the gift. In contrast, the predominant Christian model of economic assistance is the immediate gift, which is deemed to be the clearest expression of God's love—unconditional, with no strings attached.

This approach is not without a basis in scripture. Besides the numerous commands throughout the Old Testament to care for the poor, Jesus commanded his disciples to, "Give to everyone who asks you . . ." and to ". . . lend to them without expecting anything in return." (Luke 6:30ff, Matt. 5:42) God's boundless love and mercy are to be lived out in the Christian's life, and Jesus clearly contrasts God's universal and unconditional love with that of the world, which qualifies its concern by family, tribal or ethnic affiliation. Yet Jesus also conditions the manner in which love is expressed in his summary of that ethic, widely known as the Golden Rule: "Do to others as you would have them do to you." (Luke 6: 31, Matt. 7: 12) In practice, the Christian cannot indiscriminately give to everyone who asks, because that person may ask for things that are harmful to themselves or others. Jesus' ethic is guided by true *agape* love, which seeks the ultimate good of the other person, which is reconciliation with God and transformation into His image. This overarching ethic must guide our efforts to aid the poor as well.

Micro-development

The term "Economic Development" conjures visions of massive government-financed programs with billion-dollar budgets and complex organizational structures. While such "macro-economic" programs are necessary for sweeping improvements in areas such as infrastructure, education, and healthcare, significant successes have been realized from micro-development programs as well. Micro-development programs are typically divided into two categories, micro-enterprise development (MED) and micro-finance (MF).

Micro-enterprise development (MED) includes a wide array of programs designed to facilitate business startups and growth. MED programs often involve educating clients in entrepreneurship and business management principles, as well as provision of consulting or advisory services. Some MED programs may also assist in providing financing for the new business, although micro-lending is generally regarded as separate services and even those organizations that offer both services tend to separate them.

MED is directed at encouraging the inception of very small businesses, most of which have only one owner/employee. Just as there is a shortage of medical expertise in less developed countries there is a lack of experienced business people who might serve as examples, mentors, and consultants. Very often, there are also significant barriers between those with those with expertise and education who might otherwise serve as mentors to those on the lower rungs of the economic and social ladder. MED ministry seeks to fill this void. By training and mentoring according to biblical principles of business management, Christian MED organizations have as a primary goal to transform the person into God's image, to teach the person how to live, not just how to make a living. Recalling the story of Mother Teresa and the businessman, one might say that micro-enterprise development efforts teach the man to fish. Micro-lending programs lend the man the money to buy fishing equipment and bait.

What is micro-finance?

In general, poor people throughout the world suffer from a lack of access to financial services. In its most basic form, a bank receives funds from deposit customers and distributes those funds loan customers. The

interest charged on the loans pays the expenses of administering the loans and, in a modern banking system, pays the cost of providing deposit services and produces a profit for the banks owners. Poor people in the Third World lack access to both secure deposit services as well as affordable loan services. Someone living in a mud hut has few choices when it comes to stashing cash. He may bury it in a hole or put it in a piece of bamboo, but the choices are few. In Uganda a woman going to work in the fields will tie their cash into the bow that is part of the traditional dress. Deposit services are desperately needed to encourage saving, but regulatory requirements are much more involved for a deposit-taking institution relative to a lending-only institution. Since this paper concerns primarily micro-lending, a discussion of savings programs will have to wait until another time.

Borrowing options for the very poor are very few and very expensive in the Third World. Put yourself in the shoes of a poor Filipino carpenter who is strapped for cash because of unexpected medical bills, theft or destruction of property, illness that has prevented him from working, or simply the inability to "get ahead." To buy materials for the day's work, he goes to the local moneylender who makes daily loans. He is offered a loan that is structured according to an arrangement common in his country known as the "5/6 rule." It works this way: a borrower borrows five pesos in the morning and must pay back six pesos that evening. This amounts to interest of one peso for five borrowed, for an interest rate of 20% daily, or roughly 7,200% per year--an oppressive arrangement by almost any standard. He doesn't go to a bank because such small loan amounts are of no interest to commercial lenders, even if he could qualify.

There is a dire shortage of capital in poverty-stricken areas of the Third World. Capital is critical to economic progress, in that it enables the investment in productive equipment that increases productivity. When most of the people in a society are living at a subsistence level, there is no excess to sell and no one with the surplus goods or money with which to buy. Surplus is necessary to allow investment, which in turn is the key to increased productivity, which is the source of surplus and more investment. This cycle of economic progress is forestalled for lack of capital. Without surplus there is nothing available to invest, and yet without investment there can be no progress.

In a modern economy, financial markets make it possible for ideas to be realized by allowing those who have more funds than they currently need to make those funds available to those who need more than they currently have. New products or services are brought to market because those with the idea and necessary background are able to obtain the funding required to make the idea a commercial reality. Financial markets are practically non-existent in primitive economies, so an infusion of investment funds is essential to encourage economic progress in these areas.

In some cultures where funds might be available in general, they might not be available to minorities, including those who convert to Christianity. In certain Muslim and Hindu cultures, for example, converts to Christianity may be cut off from borrowing opportunities, from employment opportunities, and even from their families. Here the Christian "family" can come through with support needed to allow.

Enter micro-lending, also known as micro-credit. Micro-loans are very small loans, usually ranging in amount from \$25 to \$100, although some may reach as high as \$1,000. Most loans are short-term, from a short term of a few weeks to a longer term of six months to a year. They typically involve equal weekly payments such that the loan plus interest is repaid by these payments—no balance due at the end of the loan term. Most loans are for working capital investment—merchandise, supplies, fuel—and almost all are for the production of income.

To explain how a typical micro-loan works, consider the following example. Ruth has obtained a loan as part of a group organized through PRIDE Uganda², one of several micro-loan programs operating in Jinja. She buys charcoal produced in the surrounding villages, then hires a truck to transport it to Jinja where she sells it at a price that covers her financing and transport costs and leaves her an acceptable profit. Let's assume she borrows 100,000 UGS (Ugandan shillings) for six months at a quoted rate of 15%. Her payments on the loan would be 4,423 UGS per week, figured as the 100,000 UGS plus 15,000 UGS interest ($100,000 \times .15$) divided by 26, the number of weekly payments in six months. Most people would soon

² PRIDE is an acronym for Promotion of Rural Initiatives and Development Enterprises. PRIDE is a leading micro-credit organization serving over 100,000 clients throughout Africa.

recognize that the effective cost of the loan in percentage terms—widely known as the annual percentage rate (APR)—is much higher than the 15% rate quoted. It is at least 30%, for the full 15% interest is incurred although the loan term is only six months. However, since the borrower is repaying the loan by equal weekly payments, she doesn't have use of the full 100,000 UGS for the six months. Instead, on average she has only about half that amount available for use. When these loan terms are evaluated by the standards generally applied in most developed countries, the advertised rate of 15% translates into an APR of about 55%.

A brief history of micro-finance

The recent proliferation of micro-finance programs began in the mid-1970s with a PhD in Economics (Vanderbilt) from Bangladesh named Muhammad Yunus. Upon returning from his studies in the U.S., Yunus came to realize that the elegant macro-models he had studied in his doctoral work had little to say about the economic problems that plagued the "poorest of the poor" in rural Bangladesh.

He began visiting a nearby village to seek to understand the problems the very poor faced and was shocked by what he learned. A young widow with three children was barely subsisting despite her hard work weaving bamboo stools for ten hours each day. Yunus discovered that, for lack of funds, each morning she would have to borrow an amount equivalent to 22 cents, the money needed to buy the day's raw materials. The borrowing arrangement required that she sell the goods to the lender at a reduced price that left her with only a 2 cent profit for the entire day's work. She was essentially a bond-servant, kept in her lowly state by the sum of 22 cents. Her earnings were enough to keep her and her children alive, but provided little more.

Further research revealed similar onerous terms in various other commercial relationships. In fact, Yunus's investigation determined that 42 workers were trapped in a cycle of poverty for lack of working capital totaling about \$27. Yunus tried to work through the existing banking system, but they were not interested in the very poor, whose small individual loan needs and lack of collateral make them unattractive to commercial banks. Even the programs designated for "the poor" did not reach the poorest of the poor, since the less-poor farmers, merchants, or manufacturers are more savvy and better able to take advantage of those programs.

Yunus experimented with a number of avenues and forms to provide loan services to the very poor. His efforts came to fruition in 1983 when the Grameen (literally, "village") Bank was chartered. As of 2001, it has over 2.25 million borrowers, 94% of whom are women. Since its inception it has loaned over \$2.5 billion; the current average loan amount is \$175, and the repayment rate is 95%. Besides its own success, it has inspired and served as a model for many similar banks from Southeast Asia, throughout Africa and into Latin America. Over time, the Grameen Bank itself has changed to expand its range of services and to meet the needs of new clientele. A ministry that is considering instituting a micro-loan program would do well to seriously study the Grameen model. Similar micro-finance programs and institutions have adapted the basic Grameen model to fit their resources, their local culture, and the goals of their ministries. Thankfully, a body of research exists that enables us to summarize common characteristics of the most successful developmental micro-lending programs. The following list provides an overview of those characteristics.

Key features of successful micro-loan programs

(1) Loans are made to individuals through self-selected small groups. In the case of the highly successful Grameen Bank in Bangladesh, the basic building block of the loan system is a self-selected group of five non-related individuals. Each member is liable for her own loan, but all five are mutually liable for the loans made to group members. For this reason, members are very careful about who they enter into a group with. In effect, the borrowers, not the lender, have primary responsibility for evaluating the creditworthiness of prospective group members. In a conventional loan setting, the borrower submits an application to the lender, who then evaluates the borrower's application and makes a judgment on the basis of the intended use of the loan funds as well as relevant characteristics of the borrower such as character, collateral, and cash flow. The group model is an ingenious and critical feature that significantly reduces the cost of credit analysis to the lender.

Of course, each member's ability to service her loan depends not only on her dependability and trustworthiness, but also on the success of the enterprise being financed. As a result, group members are also interested in the nature of the project and the ability of the group member to complete

the project successfully. On an ongoing basis, group members provide business advice, encouragement, and even discipline as they consider necessary to ensure repayment of the loan. The result is a system that empowers, educates, and, in most cases, strengthens the bonds within the community.

(2) The focus is on lending, not business advisory or other services.

Although some micro-lending organizations also provide business training, it is in fact a separate role, properly considered under "Micro-enterprise Development." The reasons for this focus are several. First, the expertise required to offer loans is narrow in focus, while that required to offer sound advice in a variety of areas of business including from agriculture to manufacturing to service provision is far more broad. Second, business education or advisory services cannot pay for themselves in the same way that loan programs can be sustained by charging interest—the market will simply not allow it. Third, when the bank advises with regard to a particular business enterprise on which it makes a loan, one can argue that it has crossed a line and become a partner of sorts in the enterprise. If the enterprise then fails, the borrower can blame the bank for giving bad advice. Grameen Bank employees, whenever asked for advice by loan customers, are instructed to tell loan applicants, "We have money, but we don't have business ideas."

(3) Availability of future, larger loans is conditional on timely repayment of current loans. In the case of the Grameen bank, the five group members obtain money in stages. The most needy group member receives her loan first. After a few weeks of timely repayment have occurred, the next most needy member receives her loan, and so on.

The promise of future loans is critical to ensuring current payment. Although the group members are familiar, they cannot be related. In one African setting the rule is expressed in this way: group members cannot share the same cook fire. Meaningful peer pressure is critical to the process, and most programs claim repayment rates in excess of 95%.

When a member is unable to make timely payments the other members often make them up from their own resources. As noted earlier, successful experiences tend to enhance bonds within the group and in the community.

When borrowers default, relationships generally suffer. If the delinquent borrower's problems are other than temporary, it is not unusual for the other group members to go to that person's place of business or home and take inventory or other items to make up the shortfall.

(4) Interest is charged to cover costs of operation and ensure the program's sustainability.

Most micro-loan programs exist to fund income-generating enterprises, as opposed to loans made for charitable purposes to alleviate destitution or suffering. This is distasteful to some Christian missionaries, who see this as imposing further hardship on the poor they intend to serve. However, there are some points that must be considered:

a. First, providing a loan project is costly, and it is arguably appropriate for those who receive the benefits to contribute toward that cost. Ideally, a program that is initiated by western missionaries (who are paid on a scale to enable a mostly western lifestyle in the Third World) will as soon as possible be conducted by nationals, who must be paid a salary. Micro-loan programs are costly to initiate and operate, and these costs of operation must be covered by program revenues or by other contributions—contributions that could be used elsewhere if not devoted to the loan program.

Even if the costs of conducting the program were negligible (If they appear to be, something has been overlooked!), inflation will undermine the value of a loan portfolio and threaten its viability. To illustrate, assume that a micro-loan program is initiated with a fund equal to US\$10,000. Let's say that this money is loaned out several times over during the next year, with a 100% repayment rate--no defaults at all. If inflation occurs at the rate of 10% over the course of the year, that \$10,000 loan fund is worth only \$9,000 in terms of purchasing power. The only value money has is based on what it will buy, so the ability of this program to serve its constituents has been reduced by 10% over that year due to inflation. Interest is simply the rental charge for money, and that charge is needed to cover operating expenses and compensate for inflation.

It is widely recognized in development ministry that some types of programs are unlikely ever to be self-supporting, and therefore are not sustainable in the long term. Micro-loan programs are one of the few that

can be self-supporting by charging interest or fees such that other resources can be used to provide worthwhile programs that are not self-supporting such as evangelistic outreach, medical missions, care of orphans and widows, and most educational programs.

b. One could argue that one role of business and economic development ministry is to educate poor people in how business works, to provide them with the tools required to be successful in a competitive and dynamic marketplace. Failure to charge interest ignores the *time value of money*, the notion that money has value in use and therefore has a market-determined cost for that use. One can argue that pretending that money has no time value is misleading and unrealistic.

In the summer of 2000, I interviewed the Uganda director of FINCA, one of the world's largest micro-lending organizations. For decades it has provided relatively low-cost financing to many thousands of poor people who would not have received it otherwise. In our meeting he was very guarded, wondering what my purpose was in asking about how FINCA's programs were structured. Once he became aware of my interest in initiating a micro-loan program in Jinja, Uganda, he clearly stated his concern. Although FINCA is a non-profit non-governmental organization, he explained, it is required to cover its operating costs, and he was not keen on another organization undercutting him by giving out interest-free loans.

Given the importance of charging interest to the sustainability of micro-loan programs, the unrealistic and potentially harmful lessons taught when money is offered free, and the potential for undermining beneficial programs that must charge interest, it is not advisable to offer "interest free" loans to fund income-generating enterprises. "Loans" made for charitable purposes with no interest and with no serious expectation of repayment are properly characterized as gifts or grants, and the correct terms should be used to prevent misleading the program participants. If repayment is not truly expected—and in most cases one can look to the structure of the repayment plan to determine this—the program should not be characterized as a loan program.

(5) A compulsory savings feature provides that individuals must participate in a savings program as a condition of eligibility for loans. Besides

encouraging discipline and a savings mentality, this feature enhances the sustainability of the loan program and reduces dependency on donor funding.

Providing a safe and reasonably accessible haven for savings is a valuable service to the very poor. Some may question this since the accepted thinking is that poor people have nothing to save. The poor do save, but they have to overcome a number of obstacles to do so, including lack of secure storage places and cultural mores that regard cash as surplus. Many people in sub-Saharan Africa are not that far removed from a barter economy, and cash in the form of currency and coin does not carry the meaning it does in Western societies. While this may seem a welcome relief from the excessive focus on money that we observe in the U.S., it is an acknowledged obstacle to development in Africa. Inasmuch as cash is regarded as "unreal" or unrestricted surplus, its use is taken lightly. In much of sub-Saharan African culture, if a friend or family member asks for money and you have it, you would commit a critical ethical breach by refusing to do so. As a result of both of these features of village life that discourage saving, it's amazing that anyone saves anything. Almost everyone is able to save something, if only to set aside money for school fees or medicine. It is also characteristic that windfall sums of cash are quickly transformed into illiquid assets such as small animals or building materials for houses that remain "under construction" for years and years. From a personal finance perspective, this is a dangerous strategy since it leaves the family without the necessary liquid assets to deal with emergencies. The family may not be able to quickly convert those holdings into cash without incurring a significant loss.

It was noted earlier that accepting deposits introduces a very different dimension to a micro-loan program. Even a very small and localized deposit-taking program may be subject to a set of banking regulations designed for national institutions, such that the costs of record-keeping and oversight may make such a program impractical. The relevant regulations and their implications to the ministry should be fully considered before initiating a savings program.

(6) Women are the primary target group of most programs. In strongly male-dominated societies such as one finds in many third-world countries, women are often denied access to conventional financial institutions. For

instance, in Muslim communities a woman may be unable to borrow money or own property unless she obtains her husband's approval. Some observers also note that women tend to be more willing to work in groups than men. Whatever the causes, most micro-loan programs observe that 90-95% of their clients are women. Helping women in particular provides special benefits of interest to ministries to the poor. One is that women tend to spend more of their income to directly benefit the family through increased expenditures on food, housing, healthcare, and education. Second, it is a well-established notion that, as a woman contributes more to her household's income, she increases in social standing in the marriage relationship and in the community. Women who produce income also tend to have fewer children since the cost of having children is increased due to loss of her income and because better nutrition and healthcare reduce child mortality.

(7) The focus is on customer needs. These needs vary as to the types of loans made, the repayment terms, and the ease and speed of obtaining the loan and the convenience of making payment. Most micro-loans are made to finance investments in working capital such as inventory or supplies used in production or goods held for resale. As a result, most programs are structured to require weekly payments. While a weekly payment scheme might make sense for a merchandising loan or manufacturing loan, it would not be appropriate for an agricultural loan. It is also important to note that it is costly in terms of productivity if the borrower has to devote excessive time to completing a detailed loan application or to program-related meetings. Successful programs find ways to take the programs to the borrowers and to make the application process relatively simple and transparent, and to make the approval timeframe short.

The bread and butter of most micro-loan programs is the short-term loan, defined as one that requires full repayment within one year. In reality, most micro-loans are structured to provide repayment in a few weeks to six months, due to the fact that most loans are used to finance investments in working capital. The characteristic short term also reduces the risk of the loan portfolio. One micro-loan officer in Uganda explained that his institution did not believe it necessary to provide longer-term loans because government programs filled that need. Characteristically, programs directed at broad groups such as "farmers" or "metal fabricators" tend to be under-utilized by those who have the greatest need.

Opportunities and warnings for mission programs considering micro-credit ministry

There is no question that micro-credit programs offer valuable services to the very poor of Third-world countries. Further, they represent a ministry opportunity that can be initiated with relatively little financial investment and can be expanded as experience and need warrant. Assuming repayment rates in line with most successful programs, and assuming the program charges competitive fees and interest, the program is self-sustaining, which is a rarity in ministry programs. Besides the obvious benefits of helping customers better their (and their families') circumstances, a micro-credit ministry provides a way to connect with the community and demonstrate concern for their felt needs. In addition, successful micro-credit programs encourage personal responsibility, planning, and the development of good organizational skills; also, the typical group-lending scheme encourages teamwork and social cohesion. Increased income allows the entrepreneurs to provide better support to the work of the local church as well, thus empowering the local churches and encouraging their independence.

There is no such thing as a ministry without risks, and some of the risks associated with a micro-credit program are similar to those of, say, a healthcare outreach. There is no guarantee that helping someone enjoy better health will result in increased openness to the gospel, and there is no guarantee that helping someone achieve greater prosperity will do so, either. In fact, life's experiences might lead us to conclude just the opposite—those who are healthy and wealthy may not sense any need for salvation. Why, then, undertake a ministry program that might produce reduced openness to the gospel? The answer lies in the Golden Rule. If I want a longer, less burdensome life, with better food, clothing, and shelter for myself and my family; if I want educational and other opportunities for my children and greater security in my old age, I must want them for others. It is the height of hypocrisy to argue that very poor people are somehow better off because their lives are simpler—even if desperately so—than mine. It is the risk of choice, the same risk God took when he instilled free will in mankind.

Micro-credit involves dispensing and collecting money, and money changes things. It affects relationships and influences behavior. When the

missionary becomes a dispenser of funds, a particularly problematic dimension is introduced to his or her relationships. In one sense, the confounding of relationships is unavoidable, for any missionary will be dispensing funds as an employer of local workers or as a donor to the needy. Missionaries to Africa will testify to the difficulties that accompany dealing with money, of the many requests for gifts received daily, of the incidence of "disappearing" church contributions, and of how even a very small gift given to one person produces hard feelings or expectations in others.

However, there are other risks that are peculiar to micro-credit ministries that should be noted. First, there is a typical adversarial relationship between borrower and lender, which exists even in developed countries despite extensive experiences in credit usage and its benefits when used properly. When a church member gets behind on his loan payments, he may be too embarrassed to continue to attend services. Second, some potential borrowers may have experience with loan programs that were poorly run in that repayment was not enforced. This can result in serious confusion as to the real meaning of loan terminology and policies. Third, if church membership is a prerequisite for participating in the loan program, it can represent a perverse incentive to convert.

Is a micro-credit ministry one of those "nice ideas" that is simply more trouble than it's worth? If the services are needed in the community and the program is well organized, the answer is "no". There are a number of successful programs organized as ministries that are being administered as mission efforts. The potential problems should be recognized and addressed in the way the program is constructed. In that regard, here are some suggested guidelines for structuring a micro-loan ministry program in a Third-world missions context:

(1) Use a self-selecting group loan approach as followed by most successful programs. Use of extensive applications and/or loan committees to approve applicants is inefficient and costly, and compromises the sustainability of a micro-loan program. The group approach is critical to the use of peer pressure to encourage loan payments.

(2) To the degree possible, the micro-credit program should be organized as a separate entity with its own personnel. This suggestion is made in light of the unique relationships between borrower and lender and the potential problems this can present to the mission. Loan terms should be explained

completely and clearly, and rules should be followed to ensure the integrity of the program. Instead of writing off uncollectible loans for hardship cases, "bad" loans could be paid off by a separate benevolence entity.

(3) Church membership should not be a prerequisite for loan participation, although the program could specify certain enterprises as ineligible, for instance, production of alcoholic beverages.

Conclusion

Some years ago I read this bit of advice with regard to identifying a ministry: "Just because something needs to be done doesn't mean you're the one to do it." What special training or gifts do you or other team members possess that will allow you to organize and supervise a program that will provide blessings to all participants?

Before initiating a micro-loan program, it is critical that the mission effort research for the existence of other programs and answer these additional questions:

What micro-finance institutions, if any, exist in the community?

What elements of the community do they serve?

What elements are excluded, and why?

What service do they provide other than lending? Do they take deposits or sell insurance?

What are the terms of financing and how do those terms compare to "informal" credit providers?

A couple of years ago, I received an email from a missionary who was interested in initiating a micro-loan program. He described briefly the key aspects of the proposed program, several of which I had concerns about. I explained that a great deal of harm can come from a program that is not well structured, and suggested that he enroll in one of the online course offered by the Chalmers Center for Economic Development (See Links). I even offered to pay the course fee. He responded that he did not have the time to take a course in it—far too busy. I wish I had responded, "Then you really don't have time for a micro-loan program." Exceptional care must be taken to structure a program that is effective, efficient, transparent, and sustainable.

A short reading list on the topic:

Gulli, Hege, Microfinance and Poverty: Questioning the Conventional Wisdom, by, The Inter-American Development Bank, 1998.

Rahman, S., Micro-finance: Helping the Poor Help Themselves, UNESCO Courier, January, 1999.

Rhyne, Elizabeth and Otero, Maria, eds, The New World of Microenterprise Finance, Kumarian Press, 1994.

Yunus, Muhammad, Banker to the Poor: Micro-lending and the Battle Against World Poverty, Public Affairs, 1999.

LINKS

The following are web-based resources recommended for anyone wishing more information on Economic Development Ministry. There are a tremendous number of relief and development organizations throughout the world, and this list will expand as we become aware of organizations for which development efforts are a major aspect of their mission and efforts.

www.chalmers.org The Chalmers Center for Economic Development is based at Covenant College, a Presbyterian College near Chattanooga, Tennessee. The Chalmers Center offers on-site and online courses in economic development ministry, as well as university-credit courses and degrees in community development. The website describes the Chalmers Center's mission, ministries and offerings, although it does not provide tutorials or extensive information on development ministry. Materials and course offered are of high quality, scripturally based and reasonably priced.

www.worldvision.org World Vision International is a Christian relief and development organization that has been in operation since 1950. WVI, in their words, "(works) for the well being of all people, especially children. Through emergency relief, education, health care, economic development and promotion of justice, World Vision helps communities help themselves."

www.heifer.org Heifer International is a relief and development organization that, since the 1940s, has promoted environmentally conscious initiatives to combat hunger, primarily through agricultural and animal

management programs. HI also conducts micro-lending programs that are primarily directed at increasing agricultural production.

www.integrausa.org Integra is a Christian organization existing to "alleviate poverty, reduce unemployment, and transform communities in the depressed and developing areas of Central and Eastern Europe and Eurasia." Along with programs to help initiate micro-enterprises and to provide training and support for small- and medium-size businesses, Integra conducts programs aimed at combating corruption in its areas of activity.

www.hhi-aid.org Healing Hands International has organized and promoted global economic and medical relief projects since 1991. Although it is almost exclusively a relief organization, it has begun in recent years to sponsor some agricultural development projects. It is affiliated with the Churches of Christ.